

Santander Totta:

**Using the Momentum to become a relevant market
player in the Institutional Clients' segment**

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Abstract

Title: Santander Totta: using the Momentum to become a relevant market player in the Institutional Clients' segment

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This dissertation intends to develop a case-study illustrating the moment when Santander Totta decided to create a proposal to act on the Institutional Clients segment.

The decision was made in 2007, a time of changes in external conditions in the banking sector. On the one hand, an international financial crisis was emerging, leading to higher difficulties in maintaining the banking levels of liquidity. On the other hand, the ongoing evolution of new technologies, allowing to better fit the clients' needs with higher adaptability of products and services.

Santander Totta realized this was an opportunity to act within a relatively unknown segment for the bank. They decided to start the market research about the Institutional Clients segment to understand how the project could move forward.

The case describes the various factors to take into account, which should be analyzed by the students in order to develop a segmentation proposal and a plan of actions for the new Division.

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1. Case Study

Santander Totta: using the Momentum to become a relevant market player in the Institutional Clients' segment

1.1 Introduction

In the last meeting of 2007, and after a deep analysis of the market potential of the Institutional Clients segment, the Board of Directors of Santander Totta decided to create a specific Division developing business opportunities in this segment.

A decision had to be made about whether to create a specific Department aimed at the Institutional Clients or whether to continue dealing with them via the branches. It seemed like it would be important to get to understand what type of clients encompassed the Institutional ones compared to all the other clients, so that the existing differences could be better understood.

At the time, Institutional Clients were spread over the branches, allocated to the existing segments, and managed by a mass market commercial. However, it has been observed that these clients have specific needs and requirements compared to all the other clients, though they were targeted as similar.

Nevertheless, the Branch Directors and the commercials have not quite been aware of the specific features within this segment. This occurred once they could not afford further clients due to the scarce focus on them. There was a lack of knowledge concerning the appropriate communication and the specific desires of Institutional Clients.

In 2007 Santander Totta's focus was on Individuals, Small Businesses and Corporate. Moreover, there was a focus on a group of High Profile Institutional Clients who were managed by a Commercial Division, composed by two members, who were responsible for all the operations with these clients and were not allocated to any branch.

Names and data on the case are disguised to preserve confidentiality.

It was precisely this Division that first observed how significant this segment could be for Santander Totta and proposed to the Board of Directors to create a specific offer for these clients.

The Board of Directors of Santander Totta invited Pedro Pessoa, who had a vast knowledge in this segment and was leading the Corporate Division, to be the project leader and to present an efficient organizational structure and a business plan for the next three years.

Nevertheless, and because the economic climate was not entirely rosy, the maximum number of professionals available for this project would be five, including the already existing two members in the Commercial Division of High Profile Institutional Clients.

Given this restrictions, it would be of crucial importance to define a very concrete business model, an organizational structure to enhance the actions concerning the sales representatives in the different areas of Santander and decide which would be the most desirable sub-segments regarding their business potential.

1.2 Banco Santander Totta

Background

Banco Santander Totta was a Portuguese financial institution focused on commercial and retail banking and it was a subsidiary of Banco Santander with headquarters in Spain (see **Exhibit 1**). It was one of the “big five” banks in Portugal, with roughly 12% of market share. In 2007, it received several distinctions in various areas for its performance (see **Exhibit 2**). It has been considered for several years the most efficient Bank in Portugal, especially due to the high technology involved both in their products and services offers and in the company organization (see **Exhibit 3**). Due to their long term presence in the market and its international dimension, it generates a sense of confidence on the clients.

Santander offered its services through their branches, corporate centres or, in few cases, promoters (Santander franchising) and real estate mediators. At the end of 2007, Santander had 706 branches and corporate centres in Portugal and approximately 6.000 employees. Those values, compared with 2006, confirm their intensive focus on business expansion (see **Exhibit 4**).

General Strategies

In the course of the nineties, Santander Totta main priority was to retain clients with the granting of mortgage loans. Through the bank experience, the strategy was holding those clients for thirty, forty years and to promote cross-selling products such as payments services, wage domiciliation, etc.

But, in 2007, the economic environment in which the banking industry was carrying out its activity changed significantly. There was a deceleration at a global level as a consequence of the subprime mortgage crisis and the slowdown in the US economy. The crisis conditioned the access to international markets financing, generated an increasing of the interest rates, as well as of the credits defaults.

Due to this uncertainty, Santander Totta market approach changed. The main strategy turned into clients' retention and development of a long term relationship. However, to achieve this objective, Santander had to create a different proposal. The choice felt on the wages' domiciliation and on products free of commissions. In 2007, Santander Totta launched the campaign “Venha para o Santander e não pague comissões”².

Moreover, the reinforcement of cash management products³ was a clear focus of Santander Totta. For example, it was being prepared the launch of SEPA (*Single Euro Payments Area*) transfers and its integration in the different channels. Hence, clients could conduct their operations in the SEPA space, through instructions received by their branches. Also, there were huge improvements on Online Banking functionalities to Corporate Clients, allowing Santander to offer a more complete tool, with new features and with an easy way of working. Moreover, new products of Cash Management and offers for specific segments were re-launched, aiming to retain clients and broaden the range of products for specific segments, including Institutional Clients.

Concerning corporate social responsibility Santander Totta was focused on the promotion of knowledge and teaching, especially in Universities, to help the best Portuguese students to develop their competences. Also, Santander Totta developed an active policy of sponsorships and supports in other strategic areas, such as solidarity, environmental protection, culture, health and sports.

² “Come to Santander. No commissions to be paid”.

³ Products to manage the day-to-day businesses, also referred as transactional products.

In terms of competition, Santander Totta tried to distance from its main competitors throughout a wide product portfolio and services offer. The Products and Services Department is constantly looking to the market, contacting the sales representatives' opinions and the feedback received by their clients. Santander tried to approach the specific needs of clients in the products and services launched.

Segmentation Strategy

There were three major Clients' segments: Individuals, Small Businesses and Corporate Companies. There was an exception for the non-residential clients which had a specific segmentation.

Individuals' Segment

In what concerned Individuals' segment they were segmented based aspects such as wealth, age, life cycle and country of residence (see **Exhibit 5**).

The Private clients, belonged to the Individuals segment and were the ones with the highest potential to the bank. A Private Manager was assigned to provide a differentiated and specialized contact with those client, in order to take advantage of the client's relation and enhances the commercial involvement. It was a necessary condition that the level of individuals' resources should be higher than 375.000€.

The Premium clients were on a level below Private, which meant that were clients who justified a specialized approach, essentially in terms of retention of resources, but do not reach the category of Private. Included in this segment there were three types of clients: "Premium Base", "Premium potential with resources" and "Premium with pure potential".

The others sub-segment of clients had a standard level of importance to the bank, and were included in the client's portfolio of its branch. They were segmented based on two characteristics: age and life cycle and on a matrix that considered the level of retention and the banking potential. Their position in the matrix would depend on their retention level within Santander Totta and the operating income generated to the bank.

Small Businesses' Segment

The segment named "Small Businesses" corresponded to the clients in the branches portfolio which were sub-segmented in three groups: Medium, Small and Micro

Companies. This segmentation depended on the business turnover, on the financial debt and on the operating income to the bank (see **Exhibit 6**).

Corporate's Segment

The Corporate segment included companies managed on a Corporate Division or on specific company affiliations. There were nine specialized branches in the North of Portugal and eleven in the South targeting these clients. The distribution was made considering the clients' location, which led to a higher concentration on the metropolitan areas of Lisbon and Oporto (see **Exhibit 7**).

In the cases of companies without a Corporate Division in the radius of five miles, it would be allocated to those branches only if they had a net sales volume higher than 10 millions.

The requirements to belong to the Corporate segment was a business turnover higher than 4 millions of Euros and/or a financial debt higher than 0,5 millions of Euros.

1.3 Banking Industry Environment

There were an estimated 183 monetary financial institutions operating in Portugal in 2007, compared with 228 in 1999 (see **Exhibit 8**). The decline of approximately 20% of the market players can be accounted for the bankruptcy of some Institutions and for the consolidation in the financial sector, with mergers and acquisitions of some institutions.

Market players

All the players were Santander competitors in a general sense but considering the ones with focus on the Institutional Clients segment it was possible to narrow the competition to four banks: Caixa Geral de Depósitos (CGD), Banco Espírito Santo (BES), Banco Português de Investimento (BPI) and Millennium BCP (see **Exhibit 3** and **9**).

CGD, the public bank of Portugal, had the advantage of being the exclusive bank of all public/state institutions. Due to this long-term relationship and its status of public institution, organizations had a general perception of confidence with the bank. CGD entered in the segment with a centralized commercial team based in Lisbon.

In recent years, BES, BPI and Millennium BCP started their intensive focus on Institutional clients, with a decentralized management, and followed a geographical

segmentation as Santander Totta went for this segment with teams in specific regions of Portugal, which could follow directly a portfolio of Institutional Clients.

In recent years, other financial institutions specialized in the area of social economy had appeared, of which were not present in all of the country, but have a specific focus on some sub-segments of institutional clients and were relevant in its area of operation.

Presented in the Azores islands, with headquarters in Angra do Heroísmo was the Caixa Económica da Misericórdia, a bank with a close relationship with non-profit organizations. In 2007, they had a strong position in Angra do Heroísmo and Ponta Delgada and intentions of geographic expansion.

Another bank to be aware was Banco Português de Gestão, headquartered in Lisbon, and with one clear focus on the Social Economy. This segment had represented approximately 28% of the credit activities of the bank in 2007 and 12% of its resources. The lower percentage in the resources percentage derived from the aggressive pricing of other banks, consequence of their higher liquidity's capacity.

Competitor's strategies

The banking industry was slightly changing their segmentation strategies. It had emerged a high-road relationship banking approach based on a highly segmentation of the customer market. Financial institutions were replacing their focus on a "mass market" to a more customized approach. With this financial institutions could provide a more personalized broad range of financial services with the aim of increasing the number of clients linked to the bank.

The focus on the client and on the market efficiency was the key to recover the investments made on expansion and to retain more clients to the bank. Financial institutions were taking specific actions such as increasing the campaigns of cross selling, aligning their value proposition to clients needs, increasing the products and services portfolio offers, revising the pricing strategies and optimizing the branches responsibilities.

1.4 Institutional Clients

Definition

The term Institutional Client was hard to define. It was considered that would be included all Public and Non-Public Institutions without the aim of making profits. By definition, and according with Santander database of all the potential clients, there was a wide range of clients that could be included in this segment.

This term was occasionally misunderstood with Financial Institution Group (FIG), which could be simply referred to as Institutional Clients. In a broad sense FIG encompassed Banks, Insurance Groups, Pension Funds, Central Banks and Sovereign Funds from different countries, which needed to receive advice on major capital market transactions from each other.

Another term that needed to be distinguished was “Institutional Information”, defined as the private information that companies provide to everyone outside the business, in particular to their shareholders.

Institutional Clients segmentation

Institutional Clients were distributed on the existing commercial networks depending on its characteristics. They could be included in the Small Businesses segment or in the Corporate segment, and targeted accordingly inside the respective segment.

There was only one exception: a closed clients’ portfolio of High Profile Institutional Clients managed by two people. This specific group of institutions were managed with a special attention, mainly because their dimension and volume of transactions with the bank, especially in terms of resources.

This Commercial Division, with Francisco Albuquerque as one of the members, was aware of the potential of the Institutional clients. Francisco Albuquerque is the professional with the highest insight information regarding these clients’ needs and a valuable contribution to the initial market research and to the development of a strengthening strategy.

Pedro Pessoa’s proposal was to create a new Business Development Division, composed by specialists on the Institutional clients segment. Their aim was to support the commercial networks effort and to provide a superior quality service.

1.5 Business Opportunity Evaluation

The first information needed to collect was to quantify the number of Institutional Clients that were already Santander Totta clients, which means with at least a Santander Totta client number.

It would have also been important to research on the whole market potential, but since it was a market niche there was no information available to analyze. So, the research was essentially based on internal information.

Three different databases needed to be point: Santander Portugal's database, Crédito Predial Português' database and Banco Totta & Açores' database. The first analysis made, searched for the CAE⁴ of each client, and at the end it was collected data from approximately 60.000 potential Institutional Clients.

Nevertheless, in those data was necessary to consider client's number duplications because there were clients in more than one database. The final database was composed by 7.027 Institutional Clients, where only 2.356 were active clients. All those clients were classified internally as "Institutional Clients" (see **Exhibit 10**).

The potential number of clients for the new business area could be significantly higher than those values, which refer only to clients registered in Santander Totta database. However, there was no concrete information concerning the total number of Portuguese Institutions with the searched characteristics, to better analyze its maximum potential.

Definition of possible Institutional Clients sub-segments

On the second phase of the research, they started observing the data selection, looking for big groups with similar characteristics. They tried to discover similarities between each type of Institution to create homogeneous sub-segments.

In this part of the segmentation process, the department had the support of a consulting company, and together, they split the market into 20 sub-segments (see **Exhibits 11, 12 and 13**).

However, they were conscious that it was too much segmented and it could be necessary to create smaller clusters. For this, it would be necessary to collect the maximum information about each one of those groups. It was collected information

⁴ Economic Activity Classification (portuguese translation of Classificação de Actividades Económicas).

regarding their volume of resources and credits in Santander Totta, and the associated operating income⁵ (see **Exhibit 11**). To create homogeneous groups the segment's characteristics in terms of resources capabilities and the need of credits should be relatively similar.

Observing the sub-segments created, some of them had similar characteristics and could be clustered; others had unique features and needed a specific approach. To better understand what decision should be made, it was necessary to go further in the research about each group of clients (see **Exhibit 12**).

This type of clients, in general, was not used to consult and visit a branch to know their products and services. Santander realized that, they would be more successful if they follow an inverse approach – to visit the client to show their range of products and services.

Another important aspect discovered was that all of the institutions regulated by the State should conform to the “Código dos Contratos Públicos”⁶. This meant that they must consult three Financial Institutions before deciding on resource allocation or credit requests. This obligation was a way of ensuring that the organizations always chose the bank that offers the best financial conditions to them. Additionally, that regulation meant that Santander Totta should be alert to public offers to present specific options for these clients and implied that Santander Totta should study which potential advantages the client may have in the future, and to take this into account when deciding on the price offered.

One characteristic that Santander should also take into account when choosing the sub-segments to target, was the influence of that sub-segment on the involving area and the potential to bring other clients to the bank. Some groups were more engaged with the community than others.

As an example, municipalities by dealing with the main businesses of every Town Council, receive monthly a report of all the Municipality's relationships. This could give a chance to target more clients who had connections with current Santander clients, and as a result Santander could increasingly be more competitive, as internal transactions were cheaper than those between other Financial Institutions.

⁵ Operating Income = Net interest income + Net Comissions + Gains/losses on financial transactions.

⁶ Public Contract Code.

Moreover, the sub-segments related with the Church and Associations used to be in constant contact, mainly because they had objectives of improving the social conditions of the community around them.

Human Resources Limitations

The bank capabilities in terms of sales force could not cover all sub-segments of Institutional Clients at the same time, if they wanted to provide the necessary attention to each client. For this reason, it was request a deep analysis of each segment to decide which ones should be targeted in the beginning.

The bank capability to hire more professionals to the new Department was dependent of the market potential of the segments, but it was established a maximum of five commercials, completely dedicated to enhance the new segments.

Two of them were already allocated to the closed clients' portfolio of High Profile Institutional clients. Their responsibilities could change a little and incorporate other tasks but it was not advisable. They had too many responsibilities and considering the specialization of their job it was difficult to allocate their tasks to someone else.

The new commercials would be chosen internally, looking for people with very good communication skills and giving priority to people with knowledge on the segments of individuals or companies.

Organization and Communication Strategy for the new Institutional Clients' Division

Santander was between two options for the organizational structure of the Department. On one side, it could define that the responsibilities of attract Institutional Clients would be from the branches, as it was before, but with one expert in the area, giving support to the branch Directors and other sales representative. These professionals would be working together and preparing the commercial actions to Institutional Clients. The function of those professionals would be monitoring the Institutional Clients actions.

The other option was to segment geographically, in three areas extended over the country, with one professional responsible to each area and with a portfolio of clients to handle. However, considering the scarce resources, it could be also possible to put those professionals geographically dispersed but in contact with the commercials networks.

Additionally, a model of communication with the client needed to be thought. The model was designed to accomplish the primary objective of the Business Development Division - focus on visiting clients and knowing them. It would be based on three levels: the meeting with the client, the follow-up meeting and the succeeding commercial operation.

On the first level, there would be a meeting with the Institution – whose scheduled should be done by the branches or on behalf of the Business Development Division – to know the client, understand its characteristics and needs to better define a business strategy.

After the meeting with the Institution, the expertise on the Business Development Division would prepare and send to the sales representatives who had the client in its portfolio, the report to be validated and accomplished. This report should be used as a guideline to the sales representative towards the operations to be developed with that client. It should also work as a support tool to the guiding of those operations by the Business Development Division.

In a third level, either monthly or on an appropriate timing, meetings would be held between the Business Development Division and the sales representative in the branch, aimed at evaluating the campaign progress, the ongoing commercial operations and guaranteeing the sides commitment towards the accomplishment of the intended objectives.

Product Development

Santander Totta was constantly improving the existing products and designing new products to fit the market needs (see **Exhibit 13**). For this reason, to target the Institutional Clients it would be necessary a research on the database to better design the offer to these clients.

As it could be observed, their needs were somehow different, but similar inside each sub-segment. In general, the Institutional Clients' segment had a great potential to explore in terms of product development.

However, there were not enough knowledge about those clients' needs and, after the first attempt of research, it was not expected to create specific products to Institutional Clients, but mainly some changes on the existing ones. It was expected that, later on,

with a deeper knowledge of the market, products could be developed specifically for those clients. Pedro Pessoa was aware that some needs were not covered yet, but it was not realistic to develop totally new products in the first phase of the Division creation.

Regarding that those clients were included in the segments of companies, the products and services in that portfolio would be changed at some extent to incorporate the Institutional requests. The most desirable products for the bank were in resources, such as funds and transactional products, and in credit allowance.

In general terms, Institutional Clients were a segment with high volume of resources and high amount of transactions every day. So, these clients were mainly interested in deposits with high interest rates and in transactional products, namely products that help them in the daily management of their Institution.

One relevant aspect was that, in 2007 the program “Pagar a Tempo e Horas”⁷ was launched, to be implemented by the Public Entities. The aim of this program was to ensure that the payments made by the Public Institutions were done on time. This could be an opportunity for the Financial Institutions to enter the organization, giving them the chance to manage their financial day-to-day so as to comply with their obligations.

1.6 The decision

The Board of Directors were studying the research findings carefully. The Business Development Division had to start operations, but before that a strategy to segment the market potential and to determine which segments Santander would pursue had to be defined.

The decision about which sub-segments should be targeted and which type of organizational structure should be created seemed to be difficult.

Should Santander focus on one specific segment since the beginning or should it start operations with more than one segment and then decide which one had more potential? And which segments were the most attractive?

And in terms of organization, how many people should be hired and how should they be organized? Should they be geographically segmented or should all the commercials be together supporting the branches’ responsibility?

⁷ “Pay in time”.

With the information in their hands, the Board of Directors had to decide which strategy to follow. Time was passing by and decisions had to be made.

Exhibit 1 Santander Totta History

Date	Description
1988	Banco Santander entered in Portugal, with a small participation in Banco do Comércio e Indústria (BCI)
1993	Banco Santander acquired the majority stake of BCI. Creation of Banco Santander de Negócios Portugal.
1998	BCI changed their image and name to Banco Santander Portugal.
2000	Banco Santander bought the financial group Totta y Açores and Crédito Predial Português. It was the major banking merger in Europe after the euro creation, and Santander started holding 10% of market share.
2004	The bank undertook a through reorganization and all the entities were merged into one organization more flexible, agile and ready for new challenges. It was born Banco Santander Totta.

Source: Case writer adapted from Santander Totta website. Available at:
<http://web.santandertotta.pt/csgs/Satellite?pagename=SantanderTotta%2FSGSInformacion/STotta_contenedorInformacionConImagen&cid=1127562866117&indiceMenu=10&idMenu=1127563003513&idNietoSecundario=1127562854350&idBisnietoSecundario=4&idOpcionSel=1127563003513> [Accessed 1 April 2011].

Exhibit 2 Santander Totta Awards and Distinctions, in 2007

Award/ Distinction	Entities	Description
Best bank in Portugal	Euromoney Award for Excellence magazine	Best bank considering results, market share, strategic vision, business line progress, productivity, ROE, efficiency rate, among others.
Deal of the Year	The Banker magazine	The acquisition of 32,6% of Galp capital by Amorim Energia, financially advised by Banco Santander de Negócios, was considered one of the businesses of the year.
Foreign company generating more wealth in Portugal	Visão magazine	Santander Totta was highlighted as the largest foreign investor in Portugal, the company which sold most and the one which generated the highest added value.
Best Domestic Manager of Stock Funds	Standard & Poor's and Diário Económico	Santander Asset Management was awarded two prizes in the categories of "Portuguese Equities" and "Personal Equity Plan".
Customer Intelligence Award	International SAS	Award received for the work developed in the Customer Relationship Management area. It contributed the results achieved in operations with customers, the Data Mining models created and the approach and development of CRM policies.
Contact Center Operation	APCC Prizes	Recognition of the level of excellence achieved with contact centre operation and with the improvement of the quality and efficiency of the relationship with the customers.

Source: Santander Totta Annual Report of 2007.

Exhibit 3 Santander Totta's financial indicators, in 2006 and 2007

	Jun 2006	Dec 2006	Jun 2007
Capital Ratio	11,5%	10,9%	10,2%
Non performing loans (% of total credit)	1,44%	1,28%	1,29%
Net Interest margin (% of assets)	1,87%	1,89%	1,92%
Other revenues (% of assets)	1,63%	1,55%	1,52%
Cost - income ratio	51,7%	53,5%	48,8%
Return on Assets (ROA)	1,44%	1,3%	1,36%
Return on Equity (ROE)	23,6%	20,6%	20,6%

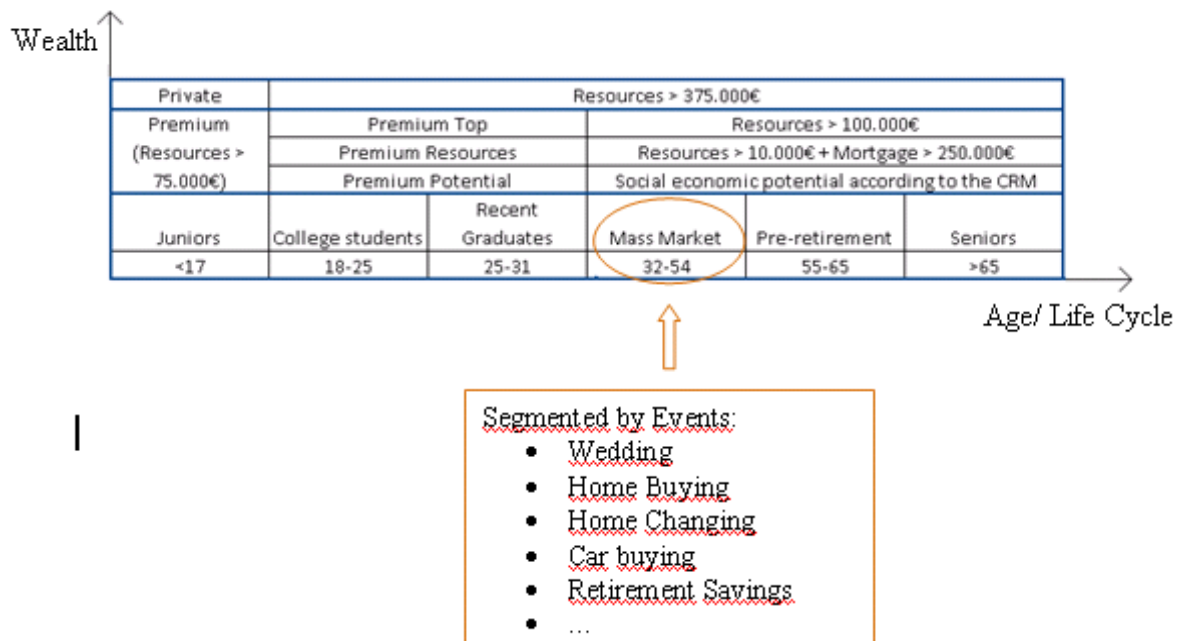
Source: Santander Totta Annual Report of 2007.

Exhibit 4 Evolution of the number of branches and employees among the top five financial institutions, in 2006 and 2007

		2006	2007	Growth rate
Number of Branches				
	Santander	683	705	3,22%
	CGD	788	810	2,79%
	Millennium BCP	853	875	2,58%
	BES	605	675	11,57%
	BPI	612	704	15,03%
Number of Employees				
	Santander	5.565	5.618	0,95%
	CGD	9.759	9.695	-0,66%
	Millennium BCP	10.318	10.249	-0,67%
	BES	5.824	5.976	2,61%
	BPI	6.654	7.323	10,05%

Source: Associação Portuguesa de Bancos.

Exhibit 5 Individuals' Segmentation (residents in Portugal)



Source: Santander Totta documents.

Exhibit 6 Small Companies' Segmentation

	Micro Companies	Small Companies	Medium Companies
Business Turnover	< €200.000	€200.000 - €1.000.000	> €1.000.000
Level of Indebt	< €50.000	€50.000 - €400.000	> €400.000
Operating Income	< €1.500	€1500	> €1.500

Source: Santander Totta documents.

Exhibit 7 Corporate Companies Segmentation

Regions	Number of specialized branches
North (except Oporto)	4
Oporto	5
South (except Lisbon)	7
Lisbon	4

Source: Santander Totta documents.

Exhibit 8 Balance Sheet of the Top Five Banks, in Dec 2007

	BST	CGD	Millennium BCP	BES	BPI
Loans to Customers	€30.769.866	€68.573.149	€66.872.781	€43.160.658	€27.603.225
Total Assets	€42.002.504	€103.553.764	€88.166.161	€68.354.713	€40.545.949
Deposits by Customers	€16.033.144	€54.038.767	€39.246.611	€23.775.030	€20.621.866
Total Liabilities	€37.933.164	€98.012.668	€83.266.906	€62.941.006	€38.640.490
Total Equity	€4.069.340	€5.541.096	€4.899.255	€5.413.707	€1.905.459

	BST	CGD	Millennium BCP	BES	BPI
Financial Margin	€508.569	€1.939.085	€1.537.303	€953.726	€639.615
Operational Income	€1.037.465	€3.149.313	€2.836.748	€1.969.305	€1.236.381
Income Before Taxes	€417.155	€1.075.124	€688.216	€787.619	€480.521
Net Income	€510.279	€856.311	€563.287	€607.069	€355.111

Source: Associação Portuguesa de Bancos.

Exhibit 9 Percentage of the Population with, at least, one account number, from 2001 to 2007

2001	2002	2003	2004	2005	2006	2007
88,0%	88,8%	88,2%	89,2%	89,4%	89,0%	90,1%

Source: Marktest.

Exhibit 10 Number of Santander Totta' clients per sub-segment of Institutional Clients, in 2007

Sub-segment	Clients on the database	Active Clients	Active Clients/ Total Clients
Armed Forces	44	26	59%
Associations	1.783	650	36%
Embassies and Consulates	39	11	28%
Foundations	245	86	35%
Holy House of Mercy	260	106	41%
Hospitals	247	89	36%
Municipalities	933	292	31%
NGO's	19	9	47%
Parish	1.194	512	43%
Parish Councils	965	180	19%
Public Services	356	21	6%
Public Companies	71	14	20%
Institutes	99	27	27%
Religious Associations	194	100	52%
Social Support Centres	172	81	47%
Social Security	104	38	37%
Unions	302	114	38%
Total	7.027	2.356	34%

Source: Santander Totta documents.

Exhibit 11 Volume of Resources, Credit and Operating Income per sub-segment of Institutional Clients, in 2007

Sub-segment	Volume of Resources	Volume of Credits	Santander Totta Operating Income
Armed Forces	€ 9.021.702	€0	€1.171
Associations	€772.399	€6.066	€30
Embassies and Consulates	€692.729	€23.101	€235
Foundations	€67.288.888	€24.121.291	€5.820
Holy House of Mercy	€17.561.664	€6.597.778	€2.148
Hospitals	€39.177.505	€79.362.698	€9.620
Municipalities	€50.560.745	€437.813.372	€30.685
NGO's	€6.066.163	€0	€742
Parish	€35.390.407	€471.863	€3.752
Parish Councils	€7.740.493	€776.917	€1.340
Public Services	€947.178	€95.337.074	€396
Public Companies	€1.666.082	€216.623.420	€4.388
Institutes	€18.905.112	€4.013.686	€2.453
Religious Association	€60.472.176	€4.758.784	€3.761
Social Support Centres	€16.914.244	€123.911	€2.081
Social Security	€174.702.072	€13.993.370	€29.038
Unions	€18.077.894	€40.594.514	€7.714
Total	€533.472.139	€928.547.642	€106.753

Source: Santander Totta documents.

Exhibit 12 Information related with each sub-segment of Institutional Clients

Armed Forces	It is the “organization responsible for the defence of the Portuguese Republic” ⁸ , it includes the navy, the army and the air force. Sub-segment attractive for Santander only to retain resources.
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⁸ Portuguese Constitution, Article 275°.

Exhibit 12, continued

Associations	It is the largest sub-segment considered: clients with high potential in global terms, but not so high per association. Specific products and services to them imply that not only a few institutions can subscribe, in order to be worth the effort made. Segment with potential in both resources and credit. Strong competition among banks, mainly targeting solidarity' institutions.
Embassies and Consulates	It is a small sub-segment, with 39 clients on the database of Santander, with potential on resources.
Foundations	Wealth segment with high level of resources to apply, with desire to be treated as unique and with the wish of working with a unique bank. It is quite difficult to target them because they want higher profits comparing with other segments. This sub-segment leads to a very competitive strategy between banks.
Holy Houses of Mercy ⁹	It is a segment of institutions inspired by the doctrine of the Catholic Church, which gives them legal recognition. All of them are considered Private Institutions of Social Solidarity ¹⁰ and affiliated to the Portuguese Union of Charitable ¹¹ . The exception is the Lisbon Holy House of Mercy, which is a legal entity of private law and public utility management. In this case the control is carry out by a member of the Government.

⁹ Portuguese translation of Santas Casas da Misericórdia.

¹⁰ IPSS – Instituições Portuguesas de Solidariedade Social.

¹¹ Portuguese translation of União das Misericórdias Portuguesas.

Exhibit 12, continued

Hospitals	Very concentrated sub-segment, few institutions but with high opportunities. Recently they were transformed from “SA” ¹² hospitals to “EPE” ¹³ hospitals, which mean that the private capital is now held by the State and other Public Institutions. Hospitals have resources and have potential to subscribe collective protocols, transactional products and credits and leasing for equipment and vehicles. In addition to it the health sector represented approximately 10% of the Portuguese Gross Domestic Product, and was growing at a higher rate than the country’s wealth.
Municipalities	It includes all the institutions controlled by the state, but with independence in decision making. It is a segment with focus on what concerns resources and credits, but more important is the segment that provides the higher operating income for Santander. There is potential for cash management products.
Non-Governmental Organizations	It is the smallest group considered, but it is one of the segments with the highest ratio of resources per active client.
Parish Councils	Opportunities will depend on the capacity to go beyond the General Government dependence on the Portuguese Treasury.
Public Services	It includes the following organizations: the Police Services, the Courts, the Ministries, the Autonomous Regions, among others. It is a segment which worked since ever with the public bank, Caixa Geral de Depósitos. If Santander offered them a differentiated strategy with different products, it could create a relationship with them.
Public Companies	It is a group of organizations that fit into the Indirect General Management. Its administration is based on the same regulations as all the Public Institutions.

¹² Public Limited Company (portuguese translation of Sociedade Anónima)

¹³ (Public Enterprise (portuguese translation of Entidades Públicas Empresariais)

Exhibit 12, continued

Institutes	It can be divided into Private and Public Institutes. The Public Institutes are similar to the other Public Organizations; it depends on public funds and subsidies. The Private Institutes are also highly dependent on subsidies but have their own administration and regulations.
Parishes	It is a portion of the diocese and it is under authority of a priest. Key to Santander is the Treasurer, who is the responsible for the administration of the Parish and the person who can decide about a connection with the bank. There are a close relationship between the Parishes and the institutions “satellite” nearby, such as, seminars, museums, foundations, associations, etc.
Religious Associations	Included in this sub-segment are religious orders, seminars and sororities, among others Entities.
Social Support Centres	The majority of the Social Centres are linked with the parishes, with the aim of helping the community in which they are included.
Social Security	Entity that promotes the financial sustainability of the citizens. It is composed by a large number of Institutes with self autonomy. The Ministry of Labour and Social Solidarity is the responsible for the areas of Social Security
Unions	Unions are private organizations, aiming to defend the interests of its members. There are organized according to categories of professionals.

Source: Santander Totta documents.

Exhibit 13 Santander Totta's number of products and services, in 2006 and 2007

	2006	2007
Number of products and services on catalogue	5.730	4.896
Number of products and services developed	277	302

Source: Santander Totta documents.

2. Teaching Note

2.1 Introduction

This case was undertaken in close collaboration with Santander Totta and to preserve company confidentiality the characters' names and the data presented are disguised.

2.2 Synopsis

Since it started operations in Portugal, Santander Totta has been one of the leader players in the banking industry. However, the year of 2007, shown to be a especially difficult one for the bank and for all the sector. Portugal was passing on a difficult economic situation, highly motivated for the international crisis, and this was highly affecting the results of banking industry.

Santander Totta decided to respond to this situation with the development of a value proposition to Institutional Clients, in order to attract more clients to the bank, and consequently to increase the operational income.

In 2007, Santander segmentation was focused on three segments: Individuals, Small Businesses and Corporate. The Individuals segment was divided according to its dimension, level of wealth, age and life cycle, the Small Businesses segment according to their dimension. The Corporate clients were targeted according to their geographically location.

Furthermore, there was one type of clients, the Institutional Clients, which was included in different groups of segments, although it was not entirely similar to them. Indeed, the Institutional Clients were enclosed in the bank's branches regardless of its capabilities to deal with these clients and without specific products to fit on their needs.

After observed the dimension and potential of the Institutional Clients' segment, Santander started a deeper market research to define a business plan to target this market niche. It was necessary to identify the right people to incorporate on this project, the communication strategy to the clients, the definition of the sub-segments to target and after that, to develop a specific product offer.

To lead this project, it was proposed to Pedro Pessoa, a very experienced professional, who was leading the Corporate Division, to be the project's leader.

2.3 Suggested Assignment Questions

- 1) How would you characterize the Portuguese banking industry in 2007? What changes were occurring? What was Santander Totta's positioning in the Portuguese industry?
- 2) How well did the strengths of Santander Totta match the requirements of the Institutional Clients?
- 3) Why did Santander Totta decide to create a specific Division to this segment? What were the specific characteristics of the Institutional Clients?
- 4) Considering the information you have from the case, should they maintain the 20 sub-segments created or can some of them be clustered? Which sub-segment(s) should be targeted first?
- 5) What strategy should be done to target the sub-segment (s) identified in the Question 4? How should it be communicated to the potential clients?

2.4 Teaching Objectives

The case is designed to be taught either in an undergraduate marketing courses or MBAs, covering the topic segmentation and targeting.

In a general sense, the case can be used to discuss the following issues:

- Building a differentiated strategy
- Market segmentation researching
- Targeting choice
- Communication with customers
- Managing sales capabilities

Finishing the case, students should have a clear understanding of the following topics:

1. The importance of finding opportunities and threats to anticipate actions and define strategies;
2. How a Financial Institution realizes that it needs to enter in a new market segment and how the market research is made;
3. The importance of investing in segmentation to better target the clients and potential clients;
4. The application of the STP theory given in class, to the banking industry;
5. The significance of understanding consumers and their needs to satisfy them;
6. Comprehend the differences and the potential of each sub-segment;
7. How the practices and strategies developed should be communicated.

2.5 Analysis and discussion

The case main objective is to help students to understand how segmentation and targeting strategies are designed and applied to one company.

1) How would you characterize the Portuguese banking industry in 2007? What changes were occurring? What was Santander Totta's positioning in the Portuguese industry?

Macroeconomic context (page 3):

- Economic deceleration at a global level as a consequence of the subprime crisis and the slowdown in the US economy;
- The banking industry was characterized by higher regulation on mortgages and excessive lending;
- Negative repercussions on the Portuguese banking industry, namely with less favourable conditions on the financial markets, decrease on the securities portfolio and on the commissions related with capital market activities;

- International trade and Portuguese Gross Domestic Product registered a slowdown on the second semester of the year of 2007.

Banking Industry:

The industry was characterized by fierce competition, with approximately 183 financial monetary institutions operating in Portugal, but essentially with 5 banks covering approximately 80% of market share (page 5).

To face the intense competition, banks have to be constantly innovating in products, services and on the communication approach to clients. The progress on technologies has lead to higher capability of improvement, higher efficiency but simultaneously a decrease on human resources needs.

The reduction on the level of liquidity in the international markets, the increase in spreads and the increase in the levels of capital necessary to operate lead changes in the business banking model. It was necessary to discover new strategies to differentiate from competition.

In 2007, the banking industry was focused essentially on the mass market, with little segmentation such as individuals, small and corporate companies. But it started to be more focused on a closer relationship with the clients. Simultaneous, the focus on the segment of Institutional Clients had been progressively growing (page 4).

Santander Totta overview:

In 2007, Santander Totta was the third biggest bank in Portugal, the second biggest non-public bank, and had 12% on market share (page 2).

It had been shown that it was a secure bank, which generated confidence on the clients towards its campaigns. To maintain that confidence, Santander had focused its campaigns on the creation of a strong client loyalty.

2) How well did the strengths of Santander Totta match the requirements of the Institutional Clients?

Santander strengths:

- One of the biggest banks in Portugal;
- Considered the most efficient bank in Portugal (page 2);

- The best bank considering results, market share in the various segments, strategic vision, business line progress, productivity, return on equity and efficiency rate, according to Euromoney (page 15);
- Constantly taking advantage of business opportunities, as could be seen with the creation of the Business Development Division.

Santander Totta strategy matches the requirements of Institutional Clients in two main aspects:

- The sense of reliability, considering that most of the potential clients were always clients of the public bank, and they need to feel reliance on the bank (page 2);
- The range of products offered was a strength of Santander and allow it to provide a differentiated proposal to the clients (page 11).

3) Why did Santander Totta decide to create a specific Division to this segment? What were the specific characteristics of the Institutional Clients?

Santander decided to create the Business Development Division because:

- The segment had a high market potential and Santander desired to retain more clients;
- There was already knowledge about a specific part of this segment – the closed clients' portfolio of High Profile Institutional Clients (page 7);
- It was an extension of Santander strategy of relationship approach (page 5);
- It created synergies of training and formation on the segment – it was not necessary that all sales representatives in the branches had specific formation on the new products created to target the segment. There were specific teams, specialized on the issue and they were the ones giving the support to branch and Institutional Clients (page 10).

TN Exhibit 1 – Institutional Clients Characteristics

Type of organization	Mainly Public Entities and non-profit organizations.
Technical characteristics	More demanding in prices and less loyal to any one Financial Institution.
Behaviour	Do not go regularly to the branches, they prefer the Financial Institution to show initiative
Number of visits to the client	To create a successful relationship, more attention and visits were needed.
Branch preparation	They were not used to dealing with these clients, so it was necessary more preparation from the sales representatives.
Type of products	Cash management products and low risk or riskless products.
Financing deadlines	Shorter deadlines.
Account movement	The amount involved on a daily basis was usually greater, which represented free resources for the bank.

Source: Case writer

4) Considering the information you have from the case, should they maintain the 20 sub-segments created or can some of them be clustered? Which sub-segment(s) should be targeted first?

The 20 sub-segments were created according to specific characteristics among the clients, although some of them had similar needs and could be targeted together.

The following table illustrates one possible way of segmenting the Institutional Clients:

TN Exhibit 2 – Sub-segments organization

Old Sub-segments	New Sub-segments	Operating Income for cluster
Armed Forces	Armed Forces	1.171
Associations, Foundations, Holy House of Mercy, Institutes, Unions.	Associations, Unions and Others	18.165
Embassies and Consulates	Embassies and Consulates	235
Public Companies, Public Services, Parish Councils, Municipalities.	General Government	36.809
Hospitals	Hospitals	9.620
NGO's	NGO's	742
Religious Associations, Parishes, Social Support Centres	Religious Institutions	9.594
Social Security	Social Security	29.038

Source: Case writer

Reasons:

- The sub-segments Associations, Foundations, Holy House of Mercy, Private Institutions and Unions could be targeted together because they had similar characteristics – were mainly organizations with resources to apply and low need of credits (page 21);
- All the Institutions related with the Public State could be together, because there was some Legislation common between them, and this could lead to some protection and higher demands to target. Furthermore, Santander could take advantage of the program “Pagar a tempo e horas” and for this, the segment could be targeted together (page 12);
- All the sub-segments included in the group of Religious Institutions, were similar. They were small dimension organizations, with resources and most of them had no need for credit (page 20);
- The Non-Governmental Organizations stayed in one specific segment. However, considering that they were a very small group they could also be on the Religious Institutions’ segment, because it was a sub-segment without

possibility to receive credit and it had resources. Nevertheless, NGO's do not had a religious aspect to be inserted in that sub-segment (page 22);

- The other sub-segments remained separated from each other, because they had specific characteristics and a strategy could not be developed to include more than one sub-segment simultaneously.

There were two segments that had higher potential to be targeted:

a) General Government

- Segment with the highest potential to generate operating income to the bank;
- It had financial independence and capacity to define its strategies;
- It had resources to apply, desired cash management products and a large need of credit;
- Segment with the most amount of information concerning their needs;
- Segment that influenced the whole involving area (employees, suppliers, etc);
- Advantage of the program “Pagar a tempo e horas”¹⁴;
- Segment with high restrictions but could be surpassed.

Within this sub-segment the group with higher potential to target was the “Municipalities”. It was a very concentrated group composed by approximately 1.000 Entities, and most of them were not on Santander databases.

b) Associations, Unions and Others

- Largest sub-segment concerning the number of clients, even if with small dimension;
- High level of resources to apply, especially the Foundations and the Institutes;
- Homogeneous sub-segment, with similar characteristics between organizations and which allows to a common strategy;
- Segment without regulatory restrictions.

¹⁴ “Pay in time”.

5) What strategy should be done to target the sub-segments identified in the Question 4? How should it be communicated to the potential clients?

The strategy will be dependent on the following factors:

- Department organization (page 10)
- Human Resources Allocation (page 10)
- Communication to the clients (page 11)
- Product Development (page 11)

First of all it is important to take into account that Santander Totta was focusing on a market niche that had, until 2007, been relatively unknown for the sales representatives of the bank, while other Financial Institutions were already on the market for several time. With this in mind, Santander's strategy should be differentiable from its competitors, with greater care to details and having delivering a differentiated offer.

As such, a potential strategy could be:

- Create a team of professionals specialised in the Institutional Clients segment, especially on the chosen sub-segment, consisting of three professionals (it is the maximum allowed), who would support the commercial's branch actions. In this way, by supporting the branches each professional could have many more clients in their portfolio than would be possible if such a relationship did not exist.
- It will be the branch's responsibility to deal on a day-to-day basis with the clients, and the Business Development Division would be responsible for guaranteeing that the client received specialised attention and that the sales representative on the branch knows how to deal with the client and the products' offer intended for those.
- To inform the client of Santander's offer, the best way would be to use a strategy based on relationship banking with the Institutional Clients, as those do not usually go to the branches even if they need the products.
- After defining the sub-segment and product offer, these specialised professionals, together with the branches' sales representative, should start

visiting the clients. It would be necessary persistence, and proceed with a correct follow-up visit and to maintain the constant contact with the client.

- Over time, their knowledge of the sub-segment should increase and the product offer would be able to greater meet the client's needs. Ideally, this should lead to suitable and unique products not offered by the competition.

2.6 Teaching Plan

The case can be divided in two parts and so that the discussion can be facilitated. Below it can be found a table that identifies the subjects to be covered and the time allocation for each one.

TN Exhibit 3: Topics to be discussed in class and time distribution suggestion

Before 2007	Time	During and after 2007	Time
Banking Industry characterization (Question 1)	5 min	Analysis of the 20 sub-segments created (Question 4)	10 min
New trends in the banking industry (Question 1)	5 min	Choice of the targeted sub-segments (Question 5)	10 min
Comparison between Santander Totta and its competitors (Question 1)	5 min	Approach to target the Institutional Clients: communication strategy, human resources capacity and product development (Question 5)	15 min
Santander strengths to match the requirements of Institutional Clients (Question 2)	5 min		
Reasons behind the Department creation (Question 3)	5 min		
Specific characteristics of the Institutional Clients (Questions 3)	10 min		

Source: Case writer

For the second part of the discussion, the teacher can form small groups, with a maximum of 6 students, to allow them to discuss the questions and to produce several different answers for the same topics.

This approach can lead to various perspectives on how the Department should be created and which sub-segments should be targeted and why. The presentation of their ideas will generate discussion and will make sure that all students understand every aspect of the case.

2.7 What has Happened (2008 - 2011)

After the market research had been made, Santander decided to create a team of five elements, two of them remained allocated to the Commercial Division of High Profile Institutional Clients and the other three were specifically allocated to target the chosen segment: the General Government.

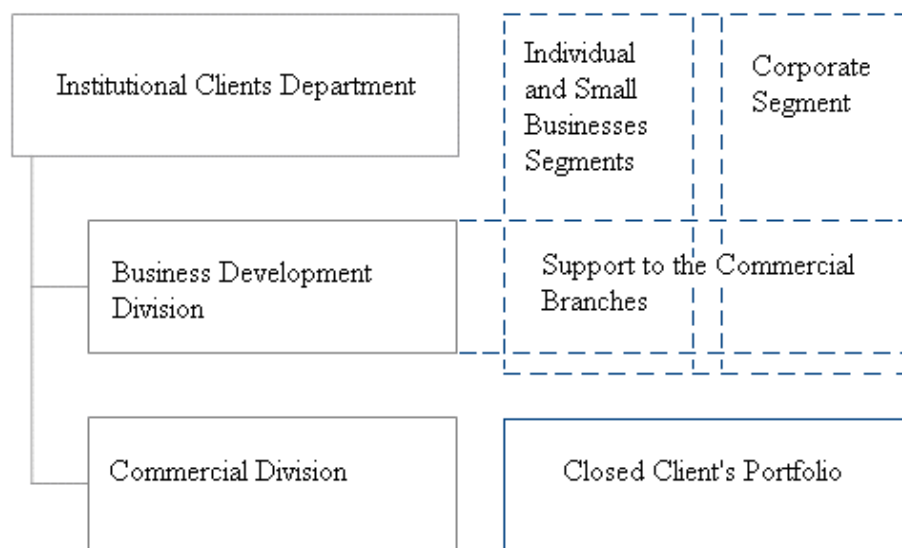
Department Organization

As showed in the table below, the Institutional Clients Department was created and divided into two directions: the Business Development Area and the Commercial Division of High-Profile Institutional Clients.

The Commercial Division stayed with two commercials as before and maintained its attention on the Closed Client's Portfolio. The new Division, named Business Development, started "supporting" the action taken on the branches, and becoming specialists in the segment.

This Business Development Division was the interface between the Institutional Clients and the managers on the commercial or corporate branches. They became specialists on the characteristics of the client, on their needs and in which specific products should be promoted to those clients.

TN Exhibit 4 – Department Organigram



Source: Case writer

The sub-segment targeted: General Government

Santander decided to target only the General Government because they believed it was the sub-segment with more potential. It was the only segment targeted due to the reduced number of employees allowed to the Division. With only three commercials assigned to that area, it would not be possible, in their opinion, to target one more sub-segment.

The majority of the Institutions in the General Government had relations with the bank Caixa Geral de Depósitos (CGD), because it was the public bank and before it was necessary have an open bank account in the former. That restriction is no long mandatory and, for this reason, Santander took the opportunity.

Moreover, Santander took advantage of the “Programa Pagar a tempo e horas”¹⁵. On the Program were included the funds and services directly and indirectly related with the General Government: Municipalities, Public Companies and Autonomous Regions. The main objective was to reduce the payment terms to suppliers from public entities. For this, the entities were allowed to contract financial loans to credit institutions.

¹⁵ “Pay in time”.

Product Differentiation

It created a differentiated product portfolio compared with the competitors, and more customized to clients needs. Santander understood that there was potential mainly in cash management products. Thus Santander created specific products: services payments, check card, online banking and home deposit.

The home deposit was a product created in 2008, which took advantage of the advances on new technologies and on the insight knowledge concerning General Government organizations' needs. This was an innovative product, composed by a small machine, placed on the organization and which allows depositing its cash on the machine and reduces the constant need to go to the bank facilities.

Decisions to take concerning the economic context, in 2011

Considering the economic context of Portugal, it is important to reflect on the decision of target the General Government Sector.

In terms of receivables, the Municipalities can have two types of receipts: present on the current account or on the capital account. The first one is related with the taxes and rates applied to citizens and with the revenues from the services provided to the population. The capital account is expressed on the acquisition or disposal of assets.

This expresses that Municipalities are highly dependent on the citizens and their capacity to fulfil their responsibilities. Consequently they are dependent on the economic context of the nation.

For Santander the decrease on the potential of this segment can lead to fewer resources to apply and less guarantees to provide credits. Considering the business volume and potential, it can condition the Institutional Clients Department strategy.

For this reason, it has been under discussion to start the research and to move their attention to another sub-segment. However, we do not know what the future holds. Only time will say it.